



INTERNAL AUDIT REPORT

FLEET MANAGEMENT - PARTS

June 3, 2002

Roanoke City Council Audit Committee
Roanoke, Virginia

We have completed a special investigation audit of the Fleet Management Parts Warehouse. Our audit was initiated on the basis of allegations made to the Municipal Auditing department that parts were being stolen from the Fleet Management department, and; based on our department's experience with inventory discrepancies in the Fleet area. Our audit was performed in accordance with generally accepted government auditing standards.

BACKGROUND

Fleet Management maintains a small warehouse of frequently needed parts such as brake pads, oil filters and tires with a total value of approximately \$140,000. There are five employees assigned to the parts operation. Two employees are Parts Technicians who have approximately 30 years of combined experience working in Fleet Management. Two employees are Storekeepers whose positions were transferred from the city's central warehouse when the fleet parts warehouse was created in December of 2000. One employee is a Mechanic's Helper but has worked strictly as a parts runner for approximately a year.

Each part kept in stock is bar-coded and when parts are issued, they are scanned using a handheld scanner. The scanner is downloaded nightly and the parts are taken out of inventory and charged to repair orders. Special order parts that are not normally stocked are manually entered into repair orders.

When mechanics need parts, employees in the parts room either issue them from stock or order the needed part(s). The majority of purchases under \$1,000 are made with City issued purchasing cards. Purchases over \$1,000 are supposed to be made using purchase orders processed through the city's extended purchasing system. Any Fleet employee in parts or in the office may order parts.

PURPOSE

The purpose of this audit was to determine if parts purchased for the Fleet Management department were accounted for properly and completely.

SCOPE

We evaluated procedures in place as of February 1, 2002. Our test work primarily focused on transactions occurring from August 1, 2001 to March 1, 2002. It should be noted that the former Fleet Manager resigned on December 19, 2001, and an acting manager began on January 15, 2002.

METHODOLOGY

We observed parts operations and interviewed parts personnel and management in order to gain an understanding of current and past policies, procedures and significant events. We traced parts from invoices to Fleet's computerized records in MCMS. We counted a sample of physical inventory and compared those counts to the quantities reported in MCMS. We also evaluated the inventory quantities for reasonableness and inventory items for obsolescence.

RESULTS

As noted at the beginning of the report, this audit was conducted largely on the basis of allegations that theft was occurring in the Fleet department. We were unable to substantiate that any individual stole parts. However, we were able to determine that the system of internal controls in the Fleet department was so poor as to make the risk of theft occurring highly probable.

Finding 01 – Work Environment

We determined that the former Fleet Manager created an environment of mistrust, incompetence, and employee indifference. This environment was created as a result of the manager's poor display of integrity and ethics, his poor operating style, a lack of commitment to employee competence, and his failing to consider qualifications when assigning job titles and authority. The following issues were noted during interviews and observations:

- The former Fleet Manager assigned job duties without proper consideration of the person's skills or experience, and without providing proper or adequate training. An Account Technician with no experience in parts was assigned the duties and title of "Warehouse Supervisor".
- Two warehouse employees with no experience in automotive work or automotive parts were reassigned to the Fleet parts department without receiving sufficient training.
- The former Fleet Manager did not engage employees in improving work in their areas. For example, the Fleet Manager did not substantially and effectively involve parts employees in establishing the parts warehouse, developing inventory procedures, or implementing the new bar coding system. He also had a NAPA representative touring the parts room and garage without ever having discussed with the employees that the parts function was being considered for outsourcing.

- Employees alleged that in past years they were forced to sign-off on paper work, make purchases, and run errands that were of a questionable nature and were told not to ask questions.

Recommendation 01 – Work Environment

The former Fleet Manager resigned in December of 2001 and a new Acting Fleet Operations Administrator was hired in January 2002. The Acting Administrator has reorganized the fleet staff and addressed the issues related to the inappropriate job duties and job titles. Employee input is being sought and used in developing new procedures for the parts operation. We recommend management continue moving forward with reorganization. Due to the long-standing issues in the operating environment at Fleet, we also recommend that the new management prepare some form of written commitment to conduct business in a fair, equitable, and open manner. This would provide a tangible change employees can see that indicates the environment has changed.

Management's Response 01 – Work Environment

Parts Room employees are now consulted before substantial changes are made in the operation thereof. Employee input has been solicited on the draft statement of Parts Room policies and procedures. Employees will continue to be consulted on needed changes in the area. An ethics section has been included in the Parts Room policies and procedures. A written commitment to a fair, ethical treatment of the Parts Room employees and in the operation of the Parts Room will be prepared, shared with the employees for their contributions, posted for all to observe by June 15th, and then closely monitored for compliance thereafter by the Fleet Manager and his superiors.

Finding 02 – Inventory Overstated

Inventory is significantly overstated. In a judgmental sample of parts, system counts did not equal physical counts in 34% of parts sampled. We believe that the inability of some Parts Technicians to correctly identify parts is partially responsible for the errors in the parts inventory records. Our test work also indicates that the inventory has never been correctly entered. Physical inventories that were taken to correct inventory counts on the parts system were done over a matter of weeks when they should have been done in a matter of hours. Office staff performed the counts without consulting or involving the experienced Parts Technicians. We also noted that there is no record of who has keys to the parts room.

Recommendation 02 – Inventory Overstated

We have discussed our concerns with the Acting Fleet Operations Administrator and he is currently developing inventory procedures with input from the experienced Parts Technicians. A physical inventory will be taken just prior to June 30 and will be used to correct the inventory on the parts system. We have recommended that some formal training on the Auto Input system be scheduled to ensure Parts Technicians use the full

capabilities of the system. The Acting Fleet Operations Administrator has evaluated staffing in the parts area and has made recommendations to Human Resources to address concerns regarding staff competency and proper assignment of supervisory authority. We have also recommended that all locks to the parts room be re-mastered and that distribution of keys be limited to those staff with responsibilities for receiving and issuing parts.

Management's Response 02 – Inventory Overstated

1. Parts Room policies and procedures have been drafted and forwarded to the Municipal Auditor's office for review and feedback. The policies and procedures include a section on inventory. These will be reviewed with the staff and implemented on June 28th.
2. A physical inventory is scheduled for June 29th and will be used to correct the inventory on the parts system. Under the new procedures, the Parts Supervisor will randomly check parts bins each day. Each bin will be checked at least three times annually. Any discrepancies are to be immediately researched and adjustments made to the system accordingly. A complete physical inventory will be conducted quarterly for the next year and annually thereafter.
3. Arrangements are being made to schedule Maximus consultants to come back on site to conduct formal training on the Auto Input system to ensure Parts Technicians use the full capabilities of the system. The target date for this is July 15th.
4. A proposal has been developed to re-organize the Parts Warehouse and provide enhanced supervisory oversight. Target date to have the new structure in place is July 15th.
5. As of May 13th the locks to the Parts Room have been changed. Only the Parts Warehouse employees and the Acting Fleet Operations Administrator will be issued keys. The keys issued are numbered and a record of who holds the key will be maintained.
6. Employees are being urged to seek certification as a Parts Specialist through the National Institute of Automotive Service Excellence.
7. Employees are urged to improve computer skills through attendance at training courses offered by the Department of Technology.

Finding 03 – Missing Parts

We evaluated all purchasing card transactions from the month of August 2001 through January 2002. We noted 22 invoices for parts that were not entered into MCMS. The total dollar value of parts we identified as missing or unaccounted for was \$4,640 for the time period reviewed.

We interviewed various personnel in the Fleet department and called several vendors in an effort to determine the disposition of these parts. We determined that in most cases, vendors record the purchasing card numbers under a City of Roanoke account. When someone from Fleet phoned in an order, the person could charge the order to any of the card numbers on file with the vendor. When one person's card reached its \$15,000 monthly limit, the Fleet staff would use another person's card. This made it impossible to conclusively determine who ordered a part. There are also no formal procedures for receiving parts at the garage. Packing slips and invoices were missing or were not marked to identify when the order was received and who received it. No formal records were maintained to record parts ordered and to check off when parts were received.

Recommendation 03 – Missing Parts

We worked with the experienced Parts Technicians and the Acting Fleet Operations Administrator to develop a new form for documenting information about items ordered by phone. The Technicians will keep the forms in a binder and regularly check on the status of parts until received. The Technicians will record the date when each order is received on the form.

We also worked with the Acting Fleet Operations Administrator and the Finance department to eliminate individual cards for parts staff and create one purchasing card for the parts room. This will consolidate the purchasing onto one statement and make reconciling the purchases to the monthly statement much easier. The Fleet department has also drafted written procedures for purchasing, receiving, and issuing parts that we believe will greatly strengthen the system of controls. These procedures specify where deliveries will be accepted, who can accept them, and the steps for checking in the deliveries.

Management's Response 03 – Missing Parts

Parts Room policies and procedures have been drafted and forwarded to the Municipal Auditor's office for review and feedback. The policies and procedures include a section on ordering and receiving parts, processing invoices for proper charge to repair orders, entering data into MCMS (management information system), and payment approval. These will be reviewed with the staff and implemented on June 28th.

As noted in the recommendation, a new form is now being used to record information about items ordered by phone. Also, as noted in the recommendation, individual purchasing cards will be eliminated by June 1st and there will then be only one card for the group. Invoices will be filed and organized for rapid retrieval as the new procedures are implemented.

Finding 04 – Obsolete and Overstocked Inventory

Many obsolete or unreasonable quantities of parts are maintained in Fleet Management's inventory. Specific examples are:

- Approximately 3/4 of a mile of colored tape used for striping City vehicles
- Approximately 600 tire patches, holding an inventory value of \$2,800
- Approximately 100 "POLICE" decals, all of which are obsolete because the decals used today are a different style of lettering.

Recommendation 04 – Obsolete and Overstocked Inventory

Parts Technicians should evaluate stock levels of every item currently in inventory. They should surplus or dispose of items that are obsolete and cannot be used.

Management's Response 04 – Obsolete and Overstocked Inventory

As part of the physical inventory to be conducted on June 29th, stock levels will be evaluated for every currently inventoried item. Obsolete items or those that cannot be used will be disposed of or classified as surplus. Under the new procedures, when demand for a part declines to less than two times within a twelve month period, ordering will be discontinued except on a special order basis.

Finding 05 – Non-chargeable Items

Items whose cost or unit measure is not suitable for directly charging to a repair are being processed as chargeable items. Items such as cotter keys costing \$.02 each are charged to work orders. Also, non-chargeable items that are recorded in inventory such as wax, car wash, nuts and bolts, and floor dry are never recorded as issued. This causes inventory to be overstated.

Recommendation 05 – Non-chargeable Items

We recommend that the Fleet department develop procedures to address shop supply items. These should include maintaining a minimal level of shop supply stock in the parts room to be issued as needed. Procedures should also include provisions for charging indirect materials such as wax to the daily indirect labor/ parts work order as they are used. Small items such as nuts and bolts should be issued out of inventory by the box.

Management's Response 05 – Non-Chargeable Items

Parts Room policies and procedures have been drafted and forwarded to the Municipal Auditor's office for review and feedback. The policies and procedures include a section to address shop supply items and indirect materials. Fasteners, cotter pins, nuts, bolts,

etc., will be placed on the shop floor for quick access by mechanics. To capture the cost of expendable supplies such as these, a percentage of labor charges will be billed on each invoice as most private shops do. These will be reviewed with the staff and implemented on June 15th.

CONCLUSION

Based on the results of our audit work, we conclude that parts purchased for the Fleet Management department were not accounted for properly and completely. We would like to thank the Acting Fleet Operations Administrator and the employees in the Fleet department for their cooperation and assistance under difficult circumstances.

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